SHRI YASHWANT SINHA: Sir, this document has been brought to my notice. I will certainly look into it and find out what I can do about it.

Raids at the residences and offices of Brokers of Bombay Stock Exchange

•544. SHRI C. RAMACHANDRAIAH: Will the Minister of FINANCE be pleased to state:

(a) whether Central Board of Direct Taxes conducted raids on the residences and offices of prominent Brokers of Bombay Stock Exchange during March, 2001;

(b) if so, the details thereof including details of unaccounted money, gold, jewellery, etc. seized;

(c) whether as a result of their manipulative activities, a large number of small investors have suffered heavy losses and compelled some of them to commit suicide alongwith their family members;

(d) if so, the details thereof; and

(e) the preventive steps taken/to be taken to streamline the working of Stock Exchanges and to save poor investors and economy of the country?

THE MINISTER OF FINANCE (SHRI YASHWANT SINHA); (a) to (e) A statement is laid oq the Table of the House.

Statement

(a) and (b) Search actions were conducted on 23.3.2001 at the business and residential premises of the following brokers:—

1. Ketan Parekh
2. Nirmal Bang
3. Anand ftathi
4. Rakesh Jhunjhunwala
5. Shanker Sharma
6. R.S.Damani

The details of seizures in consequence of search operations are mentioned as under:-

Unexplained Cash

Ketan Parekh	Rs.	0.60 lakh
Rakesh Jbunjhunwala	Rs.	9.S0 lakhs
R.S.Daraani	Rs.	3.00 lakh

Jewellery

Anand Rathi	Rs.	6.38 lakhs

Other Assets: Share

Anand Rathi	Rs.	14.77 lakhs

(c) and (d) On 27th February, 2001, pre-budget, the BSE Sensex closed at 4069.68, NSE Nifty closed at 1295.55 and the CSE Fifty Index closed at 128.94. Thereafter, the movement of the BSE Sensex, NSE Nifty and the CSE fifty was as follows:

Date	Sensex Closed Value	NSE Nifty Closed Value	CSE Index Closed Value
February 27, 2001	4069.68	1295.55	128.94
February 28, 2001	4247.04	1351.40	132.05
March 1, 2001	4271.65	1358.05	137.05
March 2, 2001	4095.16	1306.35	133.92
March 5, 2001	3998.12	1271.45	130.50
March 7, 2001	4046.89	1290.50	130.61
March 8, 2001	4056.94	1292.85	132.03
March 9, 2001	3881.96	1254.75	129.40
March 12, 2001	3767.89	1197.95	125.23
March 13, 2001	3540.65	1124.70	117.60

There was a substantia! fall on 2.3.2001, and the downtrend continued. The markets witnessed another large fall on 13.3.2001. Along with the market indices the market capitalisation of stocks had also fallen.

The price of shares is a function of market and as such Is

dependent on various micro as well as macro economic factors such as the performance and the prospects of the companies, the competition faced by the companies, as well as the global market conditions, political environment, state of the economy and the state of the industry.

Looking into the apprehensions of possibility of distortion of price discovery by certain entities, a preliminary investigation was initiated into the same. The report in this regard is being examined. Investigations have not revealed any evidence directly linking these brokers with some suicide deaths reported in the newspapers.

(e) Following measures were prescribed by SEBI of late:

Pursuant to discussions with the stock exchanges on March 5, 2001, the SEBI stipulated that:

- The threshold limit for the applicability of the volatility margin would be reduced from 80% to 60% so as to bring more script under the ambit of the volatility margin.
- No exemptions would be allowed in the applicability of volatility margin to any class of investors and that the volatility margins would be applicable to sale positions of financial institutions, foreign institutional investors, banks and mutual funds.
- All the scrips in MCFS/ALBM and BLESS would attract additional margin @ 10% on end of the day net outstanding sale position.

Pursuant to the discussions in the meeting of the Group on Risk Management Systems for Equity Markets on March 7, 2001, it was decided that—

- All sales transactions effective from March 8, 2001 shall be backed by delivery unless a sale transaction is preceded by a purchase position of at least an equivalent amount in the name of the same client in the same or any other Exchange. This will also apply to the proprietary trading by members. This will be on the self certification basis and would be subject to exchange off-site inspection up to sub-broker and client level. The Exchanges would share information to facilitate the verification. It would be

application to scrips in the MCFS, ALBM, BLESS and other deferral products.

- The current margining system will be moved to the VAR scrip-wise model from July 1, 2001.
- SEBI on March 11, 2001 stipulated that—
- The additional margin of 10% on the "end of Jhe day" net outstanding sale position of all scrips in modified carry forward system (MCFS)/Automated Lending and Borrowing Mechanism (ALBM) and Borrowing and Lending of Securities Scheme (BLESS) imposed on March 5, 2001 was increased to 25% with effect from March 12, 2001.
- The broker-wise end of the day outstanding position (aggregate of all securities) of a member on any stock exchange other than the BSE/NSE shall not exceed Rs. 50 crore with effect from Monday, March 12, 2001. The BSE and NSE have been excluded from the purview of this stipulation in view of the size of their trade and settlement guarantee funds.
- The gross exposure limit for the members of the stock exchanges was reduced to 10 times of the base capital and the additional base capital in the case of NSE and to 15 times for the other stock exchanges with effect from Monday, March 12, 2001.

The SEBI in its meeting held on March 16, 2001 decided that—

- All scrips which are included in the ALBM/BNLESS or MCFS in any stock exchange will be traded only in the compulsory rolling settlement on a nation wide basis, i.e., on all the stock exchanges from July 2, 2001.
- In addition, if there is any scrip which is included in the BSE 200 list, but not covered by the above list, will also be included in the compulsory rolling settlement on a nation-wide basis.
- The stock exchanges were advised to develop software (if necessary) before that date. In case, any exchange does not have suitable infrastructure for the above purpose, they would have to

create such infrastructure by that date, if the stock exchange wants the scrips to be traded on their exchanges other than on spot basis.

Thus, rolling settlement would be introduced in the above-mentioned scrips from July 2, 2001 on all stock exchanges and not only on the NSE or BSE; in addition to the 163 scrips mentioned
above.

The merket conditions were reviewed in the meeting of the Group on Risk Management Systems for Equity Markets held on March 16, 2001 and it was decided that the restrictions on the sale transactions as imposed on March 7, 2001 would continue to apply.

On March 9, 2001 SEBI decided to permit the stock exchanges to use the settlement guarantee fund maintained by them for meeting the shortages arising out of the non-fulfillment/partial fulfillment of the funds obligations by the members in the settlement before declaring the concerned member defaulter. This is in line with the practice followed by the National Stock Exchange. This is also in accordance with the international practice.

Besides, the above measures SEBI began investigations against some market participants.

Further, in the interest of investors and the orderly development of the securities market in India, the following decisions have been taken by SEBI on March 12, 2001 under Section 11B of the Securities and Exchange Board of India Act, 1992.

- Restrained Shri Anand Rathi from acting as a Director of the Governing Board of the Stock Exchange, Mumbai until further notice.
- Shri Anand Rath; and his concerns, *i.e.,* Anand Rathi Securities Pvt. Ltd., Navratan Capital and Securities Pvt. Ltd., Rathi Global Finance Ltd. and Rathi Capital and Securities Pvt. Ltd. were directed not to underake any fresh business as a broker, till further orders are passed by SEBI in this regard.
- Srat. Deena A. Mehta (President), Shri Himanshu N. Kaji (Honarary Treasurer), Shri Jayesh K. Sheth, Shri Kirit B. Shah, Shri Motilal Oswal, Shri Niranjan K. Nanavati, all Broker Member

Directors of the Stock Exchange, Mumbai have all been restrained from acting as Directors on the Governing Board of the Stock Exchange, Mumbai until further notice.

- On Calcutta Stock Exchange, 10 members were- declared defaulters.
- Those of the defaulter who were Board Members have resigned.
- Other elected Members of the Calcutta Stock Exchange also resigned from the Committee of the Exchange On March 30, 2001.
- Classic Shares and Stock Broking Service, Triump Securities Ltd., Triumph International Finance Ltd., N.H. Securities Ltd., the entities controlled by and connected with Mr. Ketan Parekh, and their Directors Mr. Ketan Parekh and Mr. Kartik Parekh were debarred from undertaking any fresh business as a stock broker or merchant banker *w.e.f.* April 5, 2001.
- M/s. V. N. Parekh Securities Ltd. and M/s. KNP Securities Ltd. were debarred from undertaking any fresh business at stock brokers *w.e.f.* April 11. 2001.
- Shri Arvind Johari, Century Consultants Ltd., Member, NSE and BSE, M/s Johari & Co., Member, Uttar Pradesh Stock Exchange Association Ltd., and M/s. A.M. Johari, Member, Delhi Stock Exchange Association Ltd., were directed not to undertake any fresh business as brokers *w.e.f.* April 7, 2001.

Credit Suisse First boston (I) Securities Pvt. Ltd. was debarred from undertaking any fresh business as a stock broker *w.e.f.* April 19, 2001.

- Mr. Shankar Sharma and Mrs. Devina Mehra and the entities controlled by the connected with them, *viz.,* First Global Stock Broking Pvt. Ltd., First Global Finance Pvt. Ltd., VRDHI Confinvest India Pvt. Ltd. were debarred from undertaking any fresh business as a stock broker or merchant banker or portfolio manager *w.e.f.* April 19, 2001.
- Mr. Nirmal Bang, Kishore Bang and Mr. Dilip Bang and the entities controlled by and connected with them, *viz.,* Bama

Securities Ltd,, Nirmal Bang Securities Pvt. Ltd., Bang Equity Broking, Bang Securities Pvt. Ltd. and Nadi Finance and Investment Pvt. Ltd. are debarred from undertaking any fresh business as a stock broker or a sub-broker w.e.f. April 19, 2001.

Palombe Securities Pvt. Ltd. was debarred from dealing in securities w.e.f April 19, 2001.

SHRI C. RAMACHANDRAIAH: Mr. Chairman, Sir, I thank the Minister for giving an exhaustive reply. I am confident that the answer is also authentic. Sir, these raids were conducted in pursuance of the scams that occurred in the stock exchanges. The Minister is kind enough to furnish this information about the movement of stock exchanges. On 2nd March, there was a substantial fall in the Index Prices. What I am trying to ask is this. These raids were conducted on 23rd March, whereas a substantial fall took place on the 2nd March. There are regulators, i.e. the SEBI and the RBI. When was the attention of the regulators drawn towards this fall? Why was there such a delay in conducting these raids? When the SEBI and the BSE moved to control the panic in the stock market much water had already flown under the bridge. The person who manipulated the market and who has got the capacity to mobilise Rs. 2,000 crores within a couple of months, has an unexplained cash of only Rs. 60,000. The persons who have been controlling the biggest stock exchange in this country, their total unexplained cash is around Rs. 20 lakhs. Sir, I am not questioning the authenticity of these figures. But these people were given a substantial time. Was it due to a default? Or was it due to laxity on the part of the Department to conduct the raids? Why was there such a delay? On 13th March the Sensex went down by 731 points which is abnormally low. In the case of NSE, it was 234 and in the case of CSE it was 20. Why was there such an inordinate delay in conducting the raids? Had it been done earlier, we would have got authentic information from the stockbrokers.

SHRI YASHWANT SINHA: Sir, we had a detailed discussion on stock market situation in the last part of this Session, that is, on the 13th March, to be precise. And, I made the point on that day, in my

statement as well as in my reply to the discussion, that the fluctuations in the stock market are a very normal happening. So, our concern should really not be whether the market fell on a certain date or on a number of dates. Our concern, basically, was whether there were any players in the market who were not playing according to the rules and whether they were indulging in malpractices, whether to push up the market or to bring the market down. This was the ambit of the enquiry. Now, we proceeded; because SEBI is the regulator; when SEBI felt that there might be some manipulation of the market, it started its own enquiry. So, that was one part of it. As far as the income-tax raids are concerned, I must make it clear that the Income tax Department moves in on the basis of some *prima facie* evidence of evasion of Income-tax. It is not that if anything is happening somewhere, the Income-tax Department will, naturally, go there and it will start the searches and seizures. This is done on the basis of some solid preparation because we do not want to use this arm of the Government in a vindictive fashion. Therefore, according to the norms laid down, the Department of Income-tax, especially, its investigation wing, has to collect as much information as is possible, come to a conclusion that in certain cases by certain parties there is a case of tax evasion, and only then will be the searches be condncted. Now, therefore, it would not have been proper for the Department of Income-tax to move in, without any basis on the 2nd of March, only because the markets came down on that day. I would like to ^y that there has been no dereliction of duty; there has been no delay. The Income-tax Department was also watching the market, from its point of view. It was watching the goings on and the behaviour of the various brokers. When the Income-tax Department felt that it had enough reason to proceed against some of these people, they went in and conducted searches and then seized some cash, documents, jewellery, etc. Now, if somebody is dealing in thousands of crores of rupees,, and we are able to recover unaccounted cash of only Rs. 60,000, it does not mean that all those thousands of crores of rupees will necessarily be undeployed, kept at home and all that I would only like to say that the Income-tax Department went in when

they had collected enough information. Collecting information was a part of their responsibility, and there was no loss of time. Let me also assure the House that nothing has been lost just because the Income tax people went in only on the 23rd March. We have collected enough incriminating documents which are under the examination of the Department and the Department will come to its own conclusion, according to the Income Tax laws, about the evasion of tax by these entities.

SHRI C. RAMACHANDRAIAH: Sir, what I am trying to question is not about the cash balance. What is the other incriminating evidence which the Department has procured? When such a fall of 731 points was registered, did the Department not feel that there was room for suspicion and that information has tQ be obtained from the stock brokers? And I do not advise the Government to be vindictive. But what for are the Departments there unless they are used for procuring the information? Sir, this reply is totally unsatisfactory. Such scams have become a frequent phenomenon in our country and these are tarnishing the image of the stock markets. There was such a scam in 1994 when the stock market was manipulated by Harshad Mehta. Then, there was the JPC led by a senior Parliamentarian; most of the Members in the present Cabinet were Members of the Committee. They had exhaustively dealt with the situation and they made very comprehensive recommendations. Why have those recommendations not been implemented? Had those recommendations been implemented, I hope the recurrence of such incidents would have been the minimum. The second aspect is that the country can no longer afford to allow such financial terrorism. After all, we are expecting huge investment in our infrastructure. If such a state of affairs prevails, India will become the least preferred country for investment. So, why can't a stringent action be taken to stop these transactions? Why should not properties of these culprits be seized, for example, under the Money Laundering Act? What steps does the Government propose to take to strengthen and make proacjve the role of the stock exchanges in this country so that small investors' interests are fully protected? There is one more aspect, Sir. The present Budget has reduced the interest on

deposits. The Government is virtually driving the small investors to the capital market where their interests are not being protected by the Government. What does the Government propose to do to strengthen the stock exchanges so that all such scams do not recur?

SHRI YASHWANT SINHA: In his supplementary, the hon. Member has asked a flurry of questions. I will endeavour to reply to each one. First of all, I am unable to share his perception that there has been a dereliction of duty on our part. The fact that the Income-tax Department did not go in for searches and seizures on the 3rd and 4th of March, as I have already tried to explain in detail, cannot be regarded as dereliction of duty because this is just one part of the action which has been taken. And this one part is dealing entirely with evasion of taxes. The Income-tax Department is not supposed to deal with the ups and downs of the market and replace the regulator. That is the job of the...

SHRI C. RAMACHANDRAIAH: I am sorry for interrupting. Do you think the role of the Income-tax Department, the Directorate of Inspections, is totally isolated?

SHRI YASHWANT SINHA: Sir, the role of the Income-tax Department, I would like to assert once- again, is to deal with matters relating to evasion of Income-tax. It is only that and there is no more to it. Let there be no misunderstanding about the role of the Income-tax Department. As far as the market is concerned, for the stock market, the regulator is the SEBI, and the SEBI has already made inquiries; SEBI is already making more inquiries. So, that is another part. Now, the hon. Member referred to the scam of 1992. He is quite right in saying that the JPC had been appointed then. I had the privilege, as a Member of this House then, to be a member of that JPC also. The JPC went into the question and submitted its report. The then Government placed the report, before both the Houses of Parliament with an Action Taken Report and on most of the issues action was initiated and action has been completed. So, it will not be right to say that on the JPC report of the 1992 scam action has not been taken. On the other issue, I could not agree with the hon. Member more, that such scams should not take place. We have gone

into the nature of the present scam and the nature of the present scam would suggest that while there are still some systemic problems, on the one hand, about which I talked in this House when we discussed this on the 13th of March and I myself suggested a three-point action programme, namely that we will shift to rolling settlement from the present system with effect from the 2nd of July; we need a little time to do this because the software for this will have to be prepared by the stock exchanges; on the other, I talked about the strengthening of SEBI so that SEBI acquires more powers in order to be able to deal with the present situation. So, a number of steps have been suggested. Now, what is it that has come to our notice? What has come to our notice is that individuals have indulged in fraud of a certain kind. As far as that is concerned, I have already given a detailed account of the action the SEBI has taken,both on the systemic front a& well as with regard to individual brokers and broking entities. And I must say that the SEBI has acted very fast. They have taken very prompt action immediately after the preliminary inquiry was completed. Therefore, it will not be right to say that we have not moved in the matter.

As fas as foreign direct investment is concerned, let me assure the hon. House, through you, Sir, that these are small blitz on the seam. Things will improve. Therefore, the long-term foreign direct investor in this country is not going to be influenced by such short-term problems. It has not affected the foreign direct investment in other countries, and I am quite sure, it will not affect the foreign direct investment flows into our country also.

The third part of the question is about the seizure of property. We will act according to the law. The Money Laundering Bill is still before the House. As far as seizure is concerned, we will see what are the laws of the land which are in force, at the moment, and act
according to the laws of the land.

As far as the interest rate is concerned, I think, we will have an opportunity in this House to discuss this matter when the Finance Bill comes up. But I would like to completely deny the suggestion that I have done anything in the Budget to drive the small investor to the

stock market. That is not the intention. Let me make it clear that a reduction in the interest rate does not mean that people necessarily have to go to the stock market for their investment. The information that I have suggest that as far as small savings are concerned, we have been reducing the interest rates over the last two years, and small savings have still surged in this country.

DR. MANMOHAN SINGH: Mr. Chairman, Sir, there is great uncertainty and instability in our stock markets which is not good for the country. I do believe that this uncertainty and instability has been accentuated by the actions the Government have taken by draining the system of liquidity, by imposing a ban on short selling, by tightening the margins at a time when the markets, in fact, needed more liquidity. But that is another issue.

Sir, last time, when this matter was discussed here, the hon. Minister had said that he had asked the SE6I to report to him. He has received the report of the SEBI. Thi* report is not a public property. But almost everyday, financial newspapers carry leaks attributable to the Finance Ministry sources, saying something is wrong with the UTI. Some other reports say that one particular operator has an income of Rs. 1,000 crores. The other day, some promoter companies were brought in. Banks are being brought in, this is vitiating the entire atmosphere. I request the hon. Finance Minister to come before the House with the report of the SEBI, place it on the Table of the House. Also, he himself has said on one occasion that this is a matter which can be enquired into by a Joint Parliamentary Committee. If that is conceded, I think, the country as a whole will have an opportunity to look at what is wrong with the system and what remedial measures are necessary to place financial system once again on the rails. Would the hon. Minister, first of all, place the SEBI report on the Table of the House? Secondly, would he take the initiative, as has been mentioned on behalf of the Government many times, to set up a Joint Parliamentary Committee to look into this matter?

SHRI YASHWANT SINHA: Sir, I have to say two»tbree things in reply to the supplementary which has been put by the hon. Leader

of the Opposition. The first thing is, I agree with htm that the uncertainty should not continue in the market. The SEBI has taken a number of steps, and it is true that liquidity has been tightened because it was felt that naked short sales in the market were causing havoc and were leading to a worse situation than is existing or obtaining at this point of time. We are moving towards rolling settlement. Once we move on to the rolling settlement, I think, all these issues, as far as short sales are concerned, will be taken care of automatically.

In the meanwhile, I would like to say that the SEBI has not only imposed a number of conditions in order to reduce the volatility in the market, but they have also acted against certain broking entities, against whom they are able to collect *prima facie* evidence. I would like to assert that as far as action against guilty entities is concerned, that action must be allowed to go on. We should not bother about the impact of this on the market. We should not worry too much about it because the guilty must be brought to book. This is something which I have been saying.

DR. MANMOHAN SINGH: Nobody has suggested that point,

SHRI YASHWANt SINHA: The only point I am making is, if, as a result of the action against broking entities, a certain air of uncertainty is created in the stock market, I would prefer to go along-with that uncertainty rather than hold back the action. This I want to clarify.

The second point is, I had mentioned in this House on the 13th March that SEBI was inquiring into this matter. I expected that by the middle of this month, they woujd submit at least a preliminary report. The SEBI has submitted a preliminary report; it is under our examination. The hon. Reader of the Opposition is aware that if we present the report to Parliament, we Will come with the action taken report. It would not be just a presentation of a blank report. We are examining that report, and if, at any point of time, we feel it could
e submitted to Parliament, we will certainly not hesitate to share
at report with the House.

On the third part, Sir, as far as the IPC is concerned, the Chief

Spokesperson of the Congress Party had demanded a JPC and the Minister of Parliamentary Affairs, responding to that demand, bad said that the Government would have no objection to the setting up of a Joint Parliamentary Committee if the Parliament so decided. This is what I had mentioned in the other House the other day, that it is up to the Parliament; there are procedures under which this matter would have to be discussed. Let this be discussed and let the Parliament decide whether it wants to have a JPC. *(Interruptions)*

The Government's response has already been given by the Minister of Parliamentary Affairs. It was raised outside the House and the reply was given outside the House; if somebody wants to discuss it inside the House, there are forum where this matter can be taken up and discussed. The Government will come out with appropriate recommendations. But I will only make a point because I heard Jibon *babu* saying, in a reply to a question of the Ministry of Commerce and Industry, that he wanted a JPC on the North-East. Now, we want a JPC on the stock market. We want a JPC on tehelka. I think, Parliament will have to decide as to how many JPCs we want. This is not something on which I can pronounce. I would say that let us sit down, discuss this in the appropriate forum as to how many JPCs Parliament would like to set up and go ahead and do it.

DR. MANMOHAN SINGH: What about the leakages in newspapers? I am making a serious point here. Every day, there are leakages; even today's newspapers have leakages attributed to the Finance Ministry people. They say that something is wrong with the SEBI, something is wrong with the UTI and something is wrong with the RBI. I can tell you that this is playing havoc with the integrity of the financial system.

SHRI YASHWANT SINHA: Certainly, it is an important point and I would like to cover the point made by the hon. Leader of the Opposition. The Government can't be held responsible for whatever appears in the media. I would only like to Say that what is attributed to the Finance Ministry is purely a speculation. There is nothing more to it than that because, if the Government wants to make a move, it

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takes a decision; and then, if it is a policy issue, we come before Parliament and make a statement; if it is a oon-policy issue, we will announce it outside. But the Ministry of Finance is not functioning through leakages in newspapers; the Ministry of Finance does not wish to function in that way.

DR. MANMOHAN SINGH: I had seen a prominent news item in the Star Television attributing it to the Income Tax people that a particular operator had an income of Rs. 1,000 crores. If that is true, you must tell us. Mr. Ramachandraiah is right that the information that has been provided is inconsistent with what is made available to the television channels by the authorities in the Finance Ministry. I saw it myself that the Star Television had, in Prime Time, this news item attributing it to the Income Tax people ...*(Interruptions)*...

श्री संजय निरुपमः महोदय, यह बहुत ही महत्वपूर्ण विषय है, इस पर कम से कम हाफ एन ऑवर ...(**व्यवधान**)...

डा. अलादी पी. राजकुमारः हाफ एन ऑवर डिसकशन रखी जाए। काफी मैंबर्स को इसके ऊपर ...(**व्यवधान**)... गरीब लोगों का पैसा डूब रहा है। ...(**व्यवधान**)...

श्री राजू परमारः हाफ एन ऑवर नहीं, फुल डे डिसकशन होनी चाहिए। ...(**व्यवधान**)...

डा.अलादी पी.राजकुमारः आज तक पैसा भी पे नहीं कर पा रहे हैं। मेहरबानी करके इस पर हाफ एन ऑवर डिसकशन रखी जाए। ...(**व्यवधान**)...

श्री संजय निरुपमः कृपया जे.पी.सी. के लिए हाफ एन ऑवर तो दे दें। आधे घंटे की चर्चा करने के लिए इस प्रश्न को आगे बढ़ाया जाए। हमारे पास बहुत सारे प्रश्न पूछने के लिए हैं। ...(व्यवधान)...

MR. CHAIRMAN: Do you want to say something? ...*(Interruptions)*...Question Hour is over.